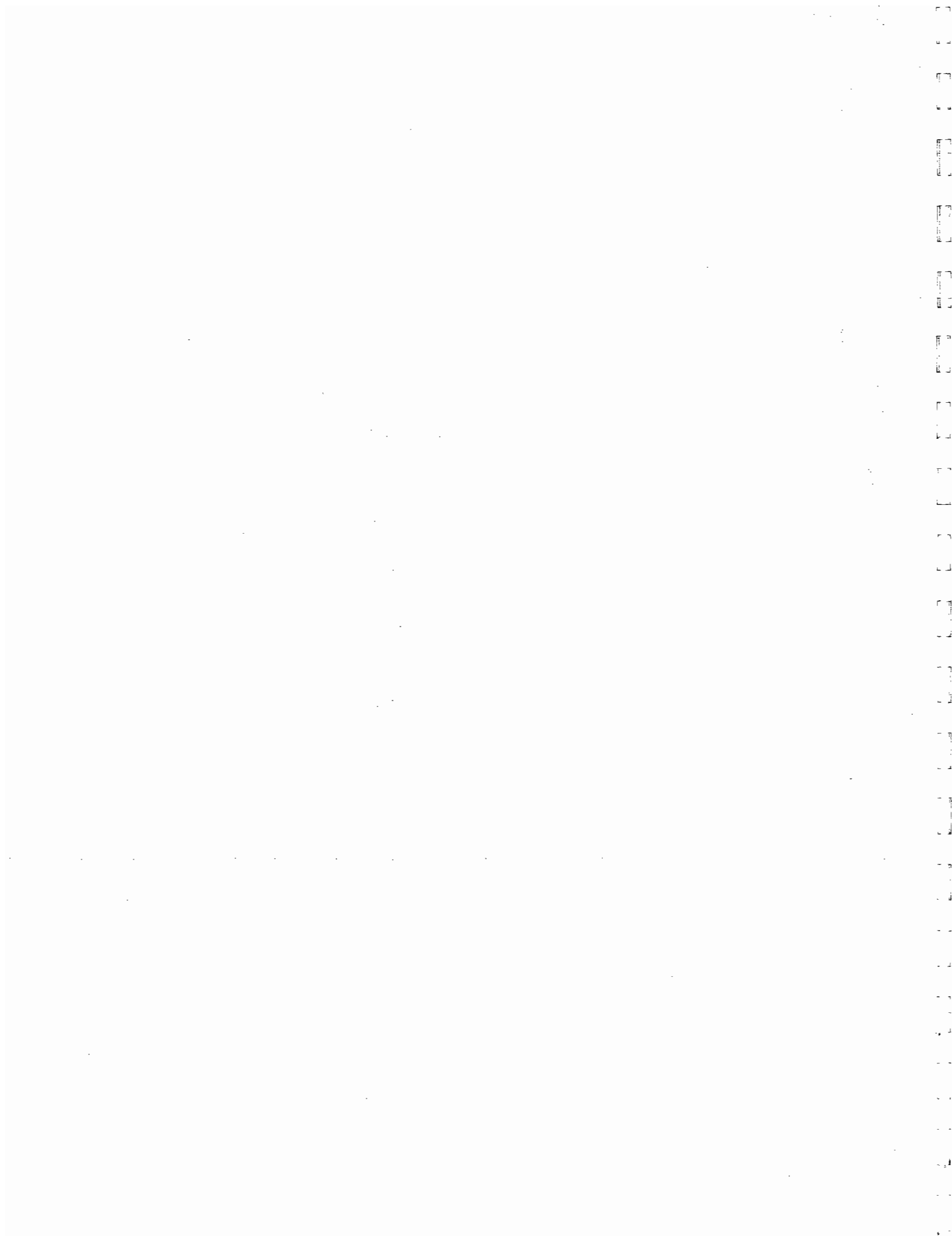


***AUDIT EXAMINATION OF THE
CALLOWAY COUNTY FISCAL COURT***

Fiscal Year Ended June 30, 2006



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CALLOWAY COUNTY FISCAL COURT

June 30, 2006

The CPA firm of Martin, Colson, Hale, & Henderson has completed the audit of the Calloway County Fiscal Court for fiscal year ended June 30, 2006. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky.

Financial Condition:

The fiscal court had unrestricted net assets of \$5,754,832 in its governmental activities as of June 30, 2006, with total net assets of \$11,489,213. In its business-type activities, total cash and cash equivalents were \$22,796 with total net assets of \$29,296. The fiscal court had total debt principal as of June 30, 2006 of \$6,469,828 with \$540,423 due within the next year.

Report Comments:

- Overtime Should Only Be Paid For Time Worked In Excess Of Forty Hours Per Week
- Original Invoices Should Be Marked In Such A Way To Avoid Duplicate Payment
- Approved Budget Amendments Should Be Included On The Quarterly Receipt And Appropriation Condition Reports
- Time Sheets Should Be Initialed By A Supervisor Before Being Paid
- The Treasurer Should Publish All Required Documents From The Prior Year Audit
- There Is An Inadequate Segregation Of Duties In The Recording Of Fixed Assets

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable Larry Elkins, Calloway County Judge/Executive
Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Calloway County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Calloway County, Kentucky prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky, as of June 30, 2006, and respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable Larry Elkins, Calloway County Judge/Executive
Members of the Calloway County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Calloway County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated July 9, 2007 on our consideration of Calloway County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Overtime Should Only Be Paid For Time Worked In Excess Of Forty Hours Per Week
- Original Invoices Should Be Marked In Such A Way To Avoid Duplicate Payment
- Approved Budget Amendments Should Be Included On The Quarterly Receipt And Appropriation Condition Reports
- Time Sheets Should Be Initialed By A Supervisor Before Being Paid
- The Treasurer Should Publish All Required Documents From The Prior Year Audit
- There Is An Inadequate Segregation Of Duties In The Recording Of Fixed Assets

Respectfully submitted,

Martin, Colson, Hale & Henderson

Martin, Colson, Hale, & Henderson CPA's

July 9, 2007

CALLOWAY COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Larry Elkins	County Judge/Executive
Kenny Imes	Magistrate
Johnny Gingles	Magistrate
Steve Lax	Magistrate
Bobby Stubblefield	Magistrate

Other Elected Officials:

David Harrington	County Attorney
Phil Hazle	Jailer
Ray Coursey, Jr.	County Clerk
Vicki Wilson	Circuit Court Clerk
Larry Roberts	Sheriff
Ronnie Jackson	Property Valuation Administrator
Mike Garland	Coroner

Appointed Personnel:

Sue Jones Outland	County Treasurer
Dawn Gaskin	County Planner
Rita Burton	Personnel or Payroll Officer
Jodie Brooks	Road Supervisor
Ed Pavlick	911 Administrator
Julie Robertson	Jail Administrative Assistant/Bookkeeper
Michelle Corum	Deputy Judge

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CALLOWAY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

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CALLOWAY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 6,666,282	\$ 22,796	\$ 6,689,078
Total Current Assets	6,666,282	22,796	6,689,078
Non-current Assets:			
Land and Land Improvements	1,078,600		1,078,600
Capital Assets - Net of Accumulated Depreciation			
Buildings	8,063,743		8,063,743
Vehicles	289,510	6,500	296,010
Equipment	1,048,042		1,048,042
Infrastructure Assets - Net of Depreciation	812,864		812,864
Total Non-current Assets	11,292,759	6,500	11,299,259
Total Assets	17,959,041	29,296	17,988,337
LIABILITIES			
Current Liabilities:			
Bonds Payable	410,000		410,000
Financing Obligations Payable	130,423		130,423
Total Current Liabilities	540,423		540,423
Non-current Liabilities:			
Bonds Payable	5,815,000		5,815,000
Financing Obligations Payable	114,405		114,405
Total Non-current Liabilities	5,929,405		5,929,405
Total Liabilities	6,469,828		6,469,828
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,822,931	6,500	4,829,431
Restricted For:			
Debt Service	911,450		911,450
Unrestricted	5,754,832	22,796	5,777,628
Total Net Assets	\$11,489,213	\$ 29,296	\$11,518,509

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		<u>Program Revenues Received</u>		
<u>Functions/Programs</u> <u>Reporting Entity</u>	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 3,078,370	\$ 68,266	\$ 792,829	\$ 348,120
Protection to Persons and Property	1,319,363	1,108,340	101,394	153,065
General Health and Sanitation	166,981	7,845		
Social Services	64,067		583,144	
Recreation and Culture	157,051			
Roads	1,622,559	169,990	1,193,915	121,836
Interest on Long-Term and Short-Term Debt	364,351			
Capital Projects	<u>169,512</u>	<u> </u>	<u> </u>	<u> </u>
Total Governmental Activities	<u>6,942,254</u>	<u>1,354,441</u>	<u>2,671,282</u>	<u>623,021</u>
Business-type Activities:				
Jail Canteen	<u>287,518</u>	<u>274,661</u>	<u> </u>	<u> </u>
Total Business-type Activities	<u>287,518</u>	<u>274,661</u>	<u> </u>	<u> </u>
Total Primary Government	<u>\$ 7,229,772</u>	<u>\$ 1,629,102</u>	<u>\$ 2,671,282</u>	<u>\$ 623,021</u>

General Revenues:

Taxes:

Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Tax
 Deed Transfer Tax
 Bank Franchise Taxes
 Franchise Taxes
 Other Taxes

In Lieu of Tax Payments
 Excess Fees
 Legal Process
 Miscellaneous Revenues
 Interest Received

Total General Revenues
 Change in Net Assets
 Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

<u>Net (Expenses) Revenues</u> <u>and Changes in Net Assets</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Totals</u>
\$ (1,869,155)	\$	\$ (1,869,155)
43,436		43,436
(159,136)		(159,136)
519,077		519,077
(157,051)		(157,051)
(136,818)		(136,818)
(364,351)		(364,351)
(169,512)		(169,512)
(2,293,510)		(2,293,510)
	(12,857)	(12,857)
	(12,857)	(12,857)
(2,293,510)	(12,857)	(2,306,367)
1,738,056		1,738,056
147,787		147,787
541,308		541,308
134,700		134,700
70,892		70,892
163,431		163,431
151,500		151,500
170,947		170,947
129,499		129,499
200		200
458,552		458,552
171,785	401	172,186
3,878,657	401	3,879,058
1,585,147	(12,456)	1,572,691
9,904,066	41,752	9,945,818
\$11,489,213	\$ 29,296	\$11,518,509

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

CALLOWAY COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

JUNE 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Jail Construction Fund</u>	<u>Jail Grant Fund</u>
ASSETS					
Cash and Cash Equivalents	\$335,945	\$93,179	\$190,495	\$3,911,522	\$1,223,147
Total Assets	<u>335,945</u>	<u>93,179</u>	<u>190,495</u>	<u>3,911,522</u>	<u>1,223,147</u>
FUND BALANCES					
Reserved for:					
Encumbrances	35	87,740	15,876		
Unreserved:					
General Fund	335,910				
Special Revenue Funds		5,439	174,619		
Capital Projects Fund				3,911,522	1,223,147
Debt Service Fund					
Total Fund Balances	<u>\$335,945</u>	<u>\$93,179</u>	<u>\$190,495</u>	<u>\$3,911,522</u>	<u>\$1,223,147</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$6,666,282
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported In The Funds.	13,974,545
Accumulated Depreciation	(2,681,786)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Financial Obligations	(244,828)
Bonded Debt	(6,225,000)
Net Assets of Governmental Activities	<u>\$11,489,213</u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
June 30, 2006
(Continued)

Public Properties Corporation <u>Fund</u>	Non- Major Funds	Total Governmental <u>Funds</u>
<u>\$911,450</u>	<u>\$544</u>	<u>\$6,666,282</u>
<u>911,450</u>	<u>544</u>	<u>6,666,282</u>
		103,651
	544	336,454
		180,058
		5,134,669
<u>911,450</u>		<u>911,450</u>
<u>\$911,450</u>	<u>\$ 544</u>	<u>\$6,666,282</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Jail Construction Fund</u>
REVENUES				
Taxes	\$ 2,202,336	\$	\$	\$ 709,207
In Lieu Tax Payments	170,432			515
Excess Fees	129,498			
Licenses and Permits	50,655			
Intergovernmental	860,038	1,443,723	1,126,711	13,763
Charges for Services	7,845	75,186	83,024	
Miscellaneous	755,446	155,494	45,782	
Interest	<u>1,800</u>	<u>625</u>	<u>643</u>	<u>102,284</u>
Total Revenues	<u>4,178,050</u>	<u>1,675,028</u>	<u>1,256,160</u>	<u>825,769</u>
EXPENDITURES				
General Government	1,703,254			35
Protection to Person and Property	103,319		1,071,865	
General Health and Sanitation	165,011			
Social Services	30,396			
Recreation and Culture	125,099			
Roads		1,860,051		
Debt Service	17,611	148,097		
Capital Projects	400,861	129,813		
Administration	<u>1,134,897</u>	<u>226,415</u>	<u>210,690</u>	<u>3,090</u>
Total Expenditures	<u>3,680,448</u>	<u>2,364,376</u>	<u>1,282,555</u>	<u>3,125</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	<u>497,602</u>	<u>(689,348)</u>	<u>(26,395)</u>	<u>822,644</u>
Other Financing Sources (Uses)				
Lease Proceeds	65,558			
Transfers From Other Funds	1,069,580	1,110,000		290,000
Transfers To Other Funds	<u>(1,407,000)</u>	<u>(375,000)</u>	<u> </u>	<u>(647,932)</u>
Total Other Financing Sources(Uses)	<u>(271,862)</u>	<u>735,000</u>	<u> </u>	<u>(357,932)</u>
Net Change in Fund Balances	225,740	45,652	(26,395)	464,712
Fund Balances - Beginning	<u>110,205</u>	<u>47,527</u>	<u>216,890</u>	<u>3,446,810</u>
Fund Balances - Ending	<u>\$ 335,945</u>	<u>\$ 93,179</u>	<u>\$ 190,495</u>	<u>\$3,911,522</u>

CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

<u>Jail Grant Fund</u>	<u>Public Properties Corporation</u>	<u>Non- Major Fund</u>	<u>Total Governmental Funds</u>
\$	\$	\$	\$ 2,911,543
			170,947
			129,498
			50,655
153,065	329,200	43,695	3,970,195
			166,055
			956,722
<u>39,315</u>	<u>27,119</u>		<u>171,786</u>
<u>192,380</u>	<u>356,319</u>	<u>43,695</u>	<u>8,527,401</u>
			1,703,289
			1,175,184
			165,011
		33,671	64,067
			125,099
		9,481	1,869,532
	739,748		905,456
			530,674
			<u>1,575,092</u>
	<u>739,748</u>	<u>43,152</u>	\$ <u>8,113,404</u>
<u>192,380</u>	<u>(383,429)</u>	<u>543</u>	<u>413,997</u>
			65,558
	357,932		2,827,512
<u>(397,580)</u>			<u>(2,827,512)</u>
<u>(397,580)</u>	<u>357,932</u>		<u>65,558</u>
(205,200)	(25,497)	543	479,555
<u>1,428,347</u>	<u>936,947</u>	<u>1</u>	<u>6,186,727</u>
<u>\$1,223,147</u>	<u>\$ 911,450</u>	<u>\$ 544</u>	<u>\$ 6,666,282</u>

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**CALLOWAY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

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CALLOWAY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 479,555
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Is Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.	
Assets Disposed Of, Net Book Value	(10,800)
Capital Outlay	948,379
Depreciation Expense	(307,534)
The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Repayment Of Principal On Long-term Debt Consumes The Current Financial Resources Of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.	
Lease Proceeds	(65,558)
Financing Obligations Principal Payments	151,105
Bond Principal Payments	<u>390,000</u>
Change in Net Assets of Governmental Activities	<u>\$1,585,147</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND- MODIFIED CASH BASIS

June 30, 2006

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CALLOWAY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities Enterprise Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 22,796
Total Current Assets	<u>22,796</u>
Non-current Assets:	
Capital Assets:	
Vehicles	8,000
Less Accumulated Depreciation	<u>(1,500)</u>
Total Non-current Assets	<u>6,500</u>
Total Assets	<u>29,296</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	6,500
Unrestricted	<u>22,796</u>
Total Net Assets	<u>\$ 29,296</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

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CALLOWAY COUNTY
STATEMENT REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS-PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts/Inmate Deposits	\$ 257,072
Total Operating Revenues	<u>257,072</u>
Operating Expenses	
Commissary Supplies	82,940
Educational and Recreational	1,678
Inmate Insurance	14,636
Vehicles Maintenance	7,668
Depreciation	750
Personnel	15,115
Miscellaneous	<u>2,582</u>
Total Operating Expenses	<u>125,369</u>
Operating Income (Loss)	<u>131,703</u>
Non-operating Revenues (Expenses)	
Recycling	10,244
Interest Income	401
Inmate Pay From State	7,345
Inmate Refunds	<u>(162,149)</u>
Total Non-operating Revenues (Expenses)	<u>(144,159)</u>
Change In Net Assets	(12,456)
Total Net Assets - Beginning	<u>41,752</u>
Total Net Assets - Ending	<u>\$ 29,296</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

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CALLOWAY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Inmates	\$257,072
Educational and Recreational	(1,678)
Commissary Supplies	(82,940)
Inmate Insurance	(14,636)
Vehicle Maintenance	(7,668)
Personnel Costs	(15,115)
Miscellaneous	(2,582)
Net Cash Provided By Operating Activities	<u>132,453</u>
Cash Flows From Non-capital Financing Activities	
Recycling Income	10,244
Inmate Pay From State	7,345
Inmate Refunds on Accounts	(162,149)
Net Cash Provided By Noncapital Financing Activities	<u>(144,560)</u>
Cash Flows from Investing Activities	
Interest Earned	401
Net Cash Provided By Investing Activities	<u>401</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(11,706)
Cash and Cash Equivalents - July 1, 2005	<u>34,502</u>
Cash and Cash Equivalents - June 30, 2006	<u>\$ 22,796</u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF CASH FLOWS –
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

	Business-Type Activities Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income	\$131,703
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>750</u>
Net Cash Provided By Operating Activities	<u>\$132,453</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated balances, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Calloway County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Calloway County Public Properties Corporation

The Calloway County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended with Calloway County's financial statements.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Calloway County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Calloway County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Calloway County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statements of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development required a separate fund or where management required that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses, distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Construction Fund - The purpose of this fund is to account for tax revenues generated for the payment for the new jail. Current debt payments are transferred to the Public Properties Corporation for the payment when due.

Jail Grant Fund - This fund was established to isolate state grant proceeds intended to offset construction costs of the county jail. These funds and associated earnings are intended to be used for future repayments of the jail debt.

Public Properties Corporation Fund - The purpose of this fund is to account for transfers in from the jail construction fund and lease payments made by the Administrative Office of the Courts (AOC) for the payment of debt on the jail and judicial building bond issues.

The primary government also has the following non-major funds: FEMA Fund, the Local Government Economic Assistance Fund, and the Community Development Block Grant Fund (CDBG).

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, FEMA Fund and CDBG Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Jail Construction Fund and Jail Grant Fund are presented as capital projects funds. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principle and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based upon the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt, and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Governor's Office of Local Development does not require the Public Properties Corporation to be budgeted because debt payments are budgeted in other funds and transferred to the Public Properties Corporation.

J. Related Organizations, Joint Ventures, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Calloway County Fiscal Court:

Economic Development Authority
 Industrial Development Authority
 Fire District
 Almo/Dexter Water District
 Water District #2

Extension District
 Library District
 Conservation District
 South 641 Water District
 Lynn Grove Water District

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Ventures, and Jointly Governed Organizations (Continued)

Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the following are considered joint ventures of Calloway County Fiscal Court:

Murray Calloway County Hospital

The Calloway County Fiscal Court (Fiscal Court) has retained an ongoing financial interest for the Murray-Calloway County Hospital. The Hospital is a joint venture between Fiscal Court and the City of Murray "to promote health and welfare and the development and operation of a viable integrated health delivery system" for the county, city, and surrounding communities. The Fiscal Court and City of Murray have equal ownership rights (50%) and are the exclusive members of the Hospital.

Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, the following are considered jointly governed organization of the Calloway County Fiscal Court:

Murray-Calloway County Park
Murray-Calloway County Airport

Murray-Calloway County Senior Citizens
Murray-Calloway County Transit Authority

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 713,227	\$ 365,373	\$ _____	\$1,078,600
Total Capital Assets Not Being Depreciated	713,227	365,373		1,078,600
Capital Assets Being Depreciated:				
Buildings	9,973,926			9,973,926
Vehicles	537,532	3,200	(14,000)	526,732
Equipment	1,262,087	262,864		1,524,951
Infrastructure	<u>553,394</u>	<u>316,942</u>	_____	<u>870,336</u>
Total Capital Assets Being Depreciated	12,326,939	583,006	(14,000)	12,895,945
Less Accumulated Depreciation For:				
Buildings	(1,713,244)	(196,939)		(1,910,183)
Vehicles	(214,934)	(25,488)	3,200	(237,222)
Equipment	(420,814)	(56,095)		(476,909)
Infrastructure	<u>(28,460)</u>	<u>(29,012)</u>	_____	<u>(57,472)</u>
Total Accumulated Depreciation	<u>(2,377,452)</u>	<u>(307,534)</u>	<u>3,200</u>	<u>(2,681,786)</u>
Total Capital Assets, Being Depreciated, Net	<u>9,949,487</u>	<u>275,472</u>	<u>(10,800)</u>	<u>10,214,159</u>
Governmental Activities Capital Assets, Net	\$ <u>10,662,714</u>	\$ <u>640,845</u>	\$ <u>(10,800)</u>	\$ <u>11,292,759</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicle	\$8,000	\$ _____	\$ _____	\$8,000
Total Capital Assets Being Depreciated	8,000			8,000
Less Accumulated Depreciation For:				
Vehicle	<u>(750)</u>	<u>(750)</u>	_____	<u>(1,500)</u>
Total Accumulated Depreciation	<u>(750)</u>	<u>(750)</u>	_____	<u>(1,500)</u>
Business-Type Activities Capital Assets, Net	<u>\$7,250</u>	<u>\$(750)</u>	<u>\$ _____</u>	<u>\$6,500</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$27,323
Protection to Persons and Property	172,109
General Health and Sanitation	1,970
Recreation and Culture	31,952
Roads, Including Depreciation of General Infrastructure Assets	<u>74,180</u>
Total Depreciation Expense - Governmental Activities	<u>\$307,534</u>

Business-Type Activities:

Protection to Persons and Property (Jail Canteen)	<u>\$750</u>
Total Depreciation Expense - Business-Type Activities	<u>\$750</u>

Note 4. Short-term Debt

A. Transit Authority-Financing Obligation

On February 22, 2005, Calloway County entered into a financing agreement with the Kentucky Association of Counties for \$22,790. These proceeds were to be used to repair equipment owned by the Murray-Calloway County Transit Authority. The terms of the agreement is for the total principal plus interest of 2.175 percent to be repaid within six months. This obligation was paid during the year.

B. Changes in Short-term Debt

Short-term debt activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Financing Obligation	<u>\$11,337</u>	<u>\$</u>	<u>\$11,337</u>	<u>\$</u>	<u>\$</u>
Governmental Activities Short-term Debt	<u>\$11,337</u>	<u>\$</u>	<u>\$11,337</u>	<u>\$</u>	<u>\$</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-Term Debt

A. Detention Facility Bonds-Series 1996-Revenue Bonds

On November 14, 1996, Calloway County authorized the Public Properties Corporation to issue up to \$4,545,000 of Revenue Bonds, Series 1996. These bonds were issued to retire Revenue Bonds Anticipation Notes, Series 1995, dated July 1, 1995 and to provide long-term financing for the Calloway County Detention Facilities. These bonds pay interest at the rate of 5.2 percent and are secured by the facilities, contents, and revenues stream created by such assets. As of June 30, 2006 the Public Properties Corporation was in compliance with the terms of the issuance. Bonds outstanding as of June 30, 2006 were \$3,065,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$215,000	\$159,380
2008	225,000	148,200
2009	235,000	136,500
2010	250,000	124,280
2011	260,000	111,280
2012-2016	1,525,000	338,000
2017	<u>355,000</u>	<u>18,460</u>
Totals	<u>\$ 3,065,000</u>	<u>\$ 1,036,100</u>

B. Court Facility Bonds-Series 1997-Revenue Bonds

On March 13, 1997, Calloway County authorized the Public Properties Corporation to issue up to \$4,420,000 of Revenue Bonds, Series 1997. These bonds were issued to provide funding for the construction and equipment of and for the Court Annex Facility. These bonds pay a variable interest rate of 4.75 to 5.625 percent. These bonds are secured by the facility and contents as well as the lease proceeds from the Kentucky Administrative Office of the Courts. As of June 30, 2006, the Public Properties Corporation was in compliance with the terms of the issuance. Bonds outstanding as of June 30, 2006 were \$3,160,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$195,000	\$170,458
2008	205,000	160,708
2009	215,000	150,458
2010	225,000	139,708
2011	240,000	128,120
2012-2016	1,390,000	433,075
2017-2018	<u>690,000</u>	<u>59,344</u>
Totals	<u>\$ 3,160,000</u>	<u>\$ 1,241,871</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long - Term Debt (Continued)

C. Road Gradall-Financing Obligation

On December 15, 2001, Calloway County entered into a financial agreement with Public Finance, Inc. to purchase a road gradall for \$157,341. On January 3, 2002, this agreement was assigned to Old National Bank. Terms of the agreement consist of five annual payments of \$35,832 due December 26 of each year. As of June 30, 2006, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2006 was \$34,292. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	<u>\$ 34,292</u>	<u>\$ 1,540</u>
Totals	<u>\$ 34,292</u>	<u>\$ 1,540</u>

D. Road Equipment-Financing Obligation

On April 19, 2005, Calloway County entered into a financial agreement with BB&T Bank to purchase road equipment for \$150,000. The terms of this agreement consist of thirty-six principal and interest payments due monthly at an interest rate of 3.8 percent. As of June, 30, 2006, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2006 was \$89,568. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	<u>\$ 41,910</u>	<u>\$ 2,243</u>
2008	<u>47,658</u>	<u>910</u>
Totals	<u>\$ 89,568</u>	<u>\$ 3,153</u>

E. County Clerk Equipment-Financing Obligation

On November 15, 2005, Calloway County entered into a financial agreement with Regions Bank to purchase equipment for the Calloway County Clerk for \$65,558. The terms of this agreement consist of forty-eight principal and interest payments of \$780 each and one final payment of \$38,000. This debt bears an interest rate of 4.64 percent. As of June, 30, 2006, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2006 was \$61,289. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	<u>\$ 6,654</u>	<u>\$ 2,704</u>
2008	<u>6,971</u>	<u>2,388</u>
2009	<u>7,300</u>	<u>2,058</u>
2010	<u>40,364</u>	<u>756</u>
Total	<u>\$ 61,289</u>	<u>\$ 7,906</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long - Term Debt (Continued)

F. Road Equipment-Financing Obligation

On September 2, 2004, Calloway County entered into a financial agreement with Kentucky Association of Counties to purchase road equipment for \$139,630. The terms of this agreement consist of thirty-six principal and interest payments due monthly at a variable rate of 2.175 percent. (Effective July 2005, interest rate increases to 4.25 percent.) As of June 30, 2006, Calloway County was in compliance with the terms of agreement. The principal balance as of June 30, 2006 was \$59,679. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 47,567	\$ 1,952
2008	<u>12,112</u>	<u>114</u>
Totals	<u>\$ 59,679</u>	<u>\$ 2,066</u>

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Revenue Bonds	6,615,000		390,000	6,225,000	410,000
Financing Obligations	<u>330,375</u>	<u>65,558</u>	<u>151,105</u>	<u>244,828</u>	<u>130,423</u>
Governmental Activities Long-term Liabilities	<u>\$ 6,945,375</u>	<u>\$ 65,558</u>	<u>\$ 541,105</u>	<u>\$ 6,469,828</u>	<u>\$ 540,423</u>

Note 6. Interest On Short-term Debt, Long-term Debt, and Financing Obligations

Debt Service on the Statement of Activities includes \$14,604 in interest on financing obligations and \$349,747 in interest on revenue bonds.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Commitments and Contingencies

On May 2, 2002, Calloway County (County) and the City of Murray (City) issued the Murray-Calloway County Public Hospital Corporation First Mortgage Revenue Refunding Bonds, Series 2002 in the amount of \$5,425,000. These bonds were issued to expand the hospital and refinance certain obligations of the hospital's nursing home to the Murray-Calloway County Public Hospital Corporation (Corporation) for yearly rental payments equal to the annually. In case of default by Corporation, the City and County are each liable for fifty percent of the bond debt requirement.

Bonds outstanding as of June 30, 2006 were \$2,865,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 915,000	\$ 105,075
2008	955,000	67,416
2009	175,000	43,663
2010	190,000	35,308
2011	200,000	26,090
2012-2013	<u>430,000</u>	<u>21,645</u>
Totals	<u>\$ 2,865,000</u>	<u>\$ 299,197</u>

B. Contingent Receivable-Economic Development Grant

In 2003, Calloway County was awarded an Economic Development Grant from Kentucky Cabinet for Economic Development of \$800,000. The purpose of the grant was intended for the county to loan this money to the Murray-Calloway County Economic Development Corporation with the understanding that the Economic Development Corporation would loan these funds to the Pella Corporation, a new business location in Murray, KY. The terms of the loan agreement as stipulated in the grant agreement state that the loan would be repaid in five (5) annual payments of \$160,000 each starting in December 2005. However, the grant agreement and loan agreement also stipulate that the annual payments would be forgiven if the Pella Corporation met certain job requirements as spelled out in the agreements. We have not been made aware of any failure to comply with the terms of this grant agreement.

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Amount</u>
2007	\$ 160,000
2008	160,000
2009	160,000
2010	<u>160,000</u>
Totals	<u>\$ 640,000</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

The Calloway County Fiscal Court has voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school, and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2006, Calloway County was a member of the Kentucky Association of Counties All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Subsequent Event

On October 30, 2006 land recorded at a value of \$730,373 was transferred to the US Department of Parks to establish the Fort Heiman National Park.

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CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash basis
For The Year Ended June 30, 2006

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis

For The Year Ended June 30, 2006

GENERAL FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,950,975	\$ 2,200,710	\$ 2,202,336	\$ 1,626
In Lieu Tax Payments	166,050	166,050	170,432	4,382
Excess Fees	115,500	129,698	129,498	(200)
Licenses and Permits	50,150	50,150	50,655	505
Intergovernmental	415,100	805,480	860,038	54,558
Charges for Services	10,000	10,000	7,845	(2,155)
Miscellaneous	1,141,900	1,186,293	755,446	(430,847)
Interest	<u>1,000</u>	<u>1,000</u>	<u>1,800</u>	<u>800</u>
Total Revenues	<u>3,850,675</u>	<u>4,549,381</u>	<u>4,178,050</u>	<u>(371,331)</u>
Expenditures				
General Government	1,501,036	1,703,321	1,703,254	67
Protection to Persons and Property	53,011	53,011	103,319	(50,308)
General Health and Sanitation	157,791	157,791	165,011	(7,220)
Social Services	36,400	36,400	30,396	6,004
Recreation and Culture	202,099	202,099	125,099	77,000
Debt Services			17,611	(17,611)
Capital Projects	136,000	336,000	400,861	(64,861)
Administration	<u>1,632,738</u>	<u>1,642,123</u>	<u>1,134,897</u>	<u>507,226</u>
Total Expenditures	<u>3,719,075</u>	<u>4,130,745</u>	<u>3,680,448</u>	<u>450,297</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>131,600</u>	<u>418,636</u>	<u>497,602</u>	<u>78,966</u>
OTHER FINANCING SOURCES (USES)				
Lease Proceeds			65,558	65,558
Transfers From Other Funds	300,000	650,000	1,069,580	419,580
Transfers To Other Funds	<u>(790,026)</u>	<u>(1,106,827)</u>	<u>(1,407,000)</u>	<u>(300,173)</u>
Total Other Financing Sources (Uses)	<u>(490,026)</u>	<u>(456,827)</u>	<u>(271,862)</u>	<u>184,965</u>
Net Changes in Fund Balance	(358,426)	(38,191)	225,740	263,931
Fund Balance - Beginning	<u>358,426</u>	<u>358,426</u>	<u>110,205</u>	<u>(248,221)</u>
Fund Balance - Ending	\$ <u> </u>	\$ <u>320,235</u>	\$ <u>335,945</u>	\$ <u>15,710</u>

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

ROAD FUND				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues				
Intergovernmental	\$1,652,639	\$1,652,639	\$1,443,723	\$(208,916)
Charges For Services	2,000	2,000	75,186	73,186
Miscellaneous	207,000	207,000	155,494	(51,506)
Interest	1,000	1,000	625	(375)
Total Revenues	<u>1,862,639</u>	<u>1,862,639</u>	<u>1,675,028</u>	<u>(187,611)</u>
Expenditures				
Roads	1,465,665	1,739,885	1,860,051	(120,166)
Debt Service	105,000	105,000	143,885	(38,885)
Capital Projects	540,000	540,000	134,025	405,975
Administration	262,000	274,815	226,415	48,400
Total Expenditures	<u>2,372,665</u>	<u>2,659,700</u>	<u>2,364,376</u>	<u>295,324</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	(510,026)	(797,061)	(689,348)	107,713
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	490,026	777,061	1,110,000	332,939
Transfers To Other Funds			(375,000)	(375,000)
Total Other Financing Sources (Uses)	<u>490,026</u>	<u>777,061</u>	<u>735,000</u>	<u>(42,061)</u>
Net Changes in Fund Balance	(20,000)	(20,000)	45,652	65,652
Fund Balance -- Beginning	<u>20,000</u>	<u>20,000</u>	<u>47,527</u>	<u>27,527</u>
Fund Balance -- Ending	<u>\$</u>	<u>\$</u>	<u>\$ 93,179</u>	<u>\$ 93,179</u>

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
 Required Supplemental Information - Modified Cash Basis
 For The Year Ended June 30, 2006
 (Continued)

JAIL FUND				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues				
Intergovernmental	\$ 1,048,000	\$ 1,048,000	\$1,126,711	\$ 78,711
Charges for Services	32,000	32,000	83,024	51,024
Miscellaneous	35,000	35,000	45,782	10,782
Interest	1,000	1,000	643	(357)
Total Revenues	<u>1,116,000</u>	<u>1,116,000</u>	<u>1,256,160</u>	<u>140,160</u>
Expenditures				
Protection to Persons and Property	1,211,600	1,211,600	1,071,865	139,735
Administration	<u>272,400</u>	<u>272,400</u>	<u>210,690</u>	<u>61,710</u>
Total Expenditures	<u>1,484,000</u>	<u>1,484,000</u>	<u>1,282,555</u>	<u>201,445</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	(368,000)	(368,000)	(26,395)	341,605
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	368,000	368,000	_____	(368,000)
Total Other Financing Sources (Uses)	<u>368,000</u>	<u>368,000</u>	_____	<u>(368,000)</u>
Net Changes in Fund Balance			(26,395)	(26,395)
Fund Balance - Beginning	_____	_____	<u>216,890</u>	<u>216,890</u>
Fund Balance - Ending	\$ _____	\$ _____	<u>\$ 190,495</u>	<u>\$ 190,495</u>

CALLOWAY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditure may not exceed budgeted appropriations at the activity level.

The final budgeted amounts for revenue and expenditures are not equal for the General Fund or the Jail Grant Fund individually in the budgetary comparison schedules. However, if the revenues and expenditures of the Jail Construction Fund, which is a Capital Projects Fund of the County, and the FEMA fund which is a minor fund, are included, the total revenues and expenditures equal. See table below.

	Budgeted <u>Major Funds</u>	Budgeted <u>Revenues</u>	Budgeted <u>Expenditures</u>	<u>Variance</u>
General Fund		\$4,450,980	\$4,130,745	\$320,235
Road Fund		2,659,700	2,659,700	
Jail Fund		1,484,000	1,484,000	
Jail Grant Fund		1,079,949	1,429,949	(350,000)
Jail Construction Fund		3,927,311	3,927,311	
FEMA Fund		<u>59,530</u>	<u>29,765</u>	<u>29,765</u>
		<u>\$13,661,470</u>	<u>\$13,661,470</u>	<u>\$</u>

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**CALLOWAY COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

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CALLOWAY COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
Other Supplemental Information

June 30, 2006

	<u>FEMA Fund</u>	<u>LGEA Fund</u>	<u>CDBG Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 543	\$	\$ 1	\$ 544
Total Assets	<u>543</u>	<u></u>	<u>1</u>	<u>544</u>
FUND BALANCES				
Unreserved:				
General Fund	<u>543</u>	<u></u>	<u>1</u>	<u>544</u>
Total Fund Balances	<u>\$ 543</u>	<u>\$</u>	<u>\$ 1</u>	<u>\$ 544</u>

The notes to the financial statements are an integral part of this statement.

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CALLOWAY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplemental Information

For The Year Ended June 30, 2006

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CALLOWAY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	FEMA Fund	LGEA Fund	CDBG Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 34,214	\$ 9,481	\$ _____	\$ 43,695
Total Revenues	<u>34,214</u>	<u>9,481</u>	<u>_____</u>	<u>43,695</u>
EXPENDITURES				
Social Services	33,671			33,671
Roads		9,481		9,481
Total Expenditures	<u>33,671</u>	<u>9,481</u>	<u>_____</u>	<u>43,152</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>543</u>	<u>_____</u>	<u>_____</u>	<u>543</u>
Net Change In Fund Balance	543			543
Fund Balances - Beginning			<u>1</u>	<u>1</u>
Fund Balances - Ending	<u>\$ 543</u>	<u>\$ _____</u>	<u>\$ 1</u>	<u>\$ 544</u>

The notes to the financial statements are an integral part of this statement.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

MARTIN, COLSON, HALE & HENDERSON

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Honorable Larry Elkins, Calloway County Judge/Executive
Members of the Calloway County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Governmental Auditing Standards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated July 9, 2007. Calloway County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Calloway County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over the financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Calloway County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the accompanying comments and recommendations.

- There Is An Inadequate Segregation Of Duties In The Recording Of Fixed Assets
- Original Invoices Should Be Marked In Such A Way To Avoid Duplicate Payment
- Time Sheets Should Be Initialed By A Supervisor Before Being Paid

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above as "*There Is An Inadequate Segregation Of Duties In The Recording Of Fixed Assets*" to be a material weakness.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Calloway County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- Overtime Should Only Be Paid For Time Worked In Excess Of Forty Hours Per Week
- Approved Budget Amendments Should Be Included On The Quarterly Receipt And Appropriation Condition Reports
- The Treasurer Should Publish All Required Documents From The Prior Year Audit

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Martin, Colson, Hale, and Henderson

Martin, Colson, Hale and Henderson CPAs

July 9, 2007

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**CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2006

**CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2006

STATE LAWS AND REGULATIONS

Overtime Should Only Be Paid For Time Worked In Excess Of Forty Hours Per Week

During the course of our audit, we discovered that vacation time was being included in the total hours worked for purposes of calculating overtime pay for employees. Per the US Department of Labor website overtime should only be paid for hours worked in excess of forty per week. Our understanding is that vacation time should only be paid at the employee's normal rate and not be included in the calculation of hours worked for the purpose of calculating overtime.

County Judge/Executive Larry Elkins' Response:

Will comply.

Approved Budget Amendments Should Be Included On The Quarterly Receipt And Appropriation Condition Reports

We identified two amendments that were either omitted entirely or incorrectly posted to the quarterly receipt and appropriation condition reports. We recommend that these reports be more closely reviewed to include all approved amendments in their entirety.

County Judge/Executive Larry Elkins' Response:

That year our computer doubled everything at year's end. Will comply.

The Treasurer Should Publish All Required Documents From The Prior Year Audit

During follow-up of the prior year audit, we noted that the audit report for fiscal year ending June 30, 2005 was published on May 17, 2007. However, only the cover letter was published. In order to fully comply with KRS 424.220(8), several financial statements are required to be published. These financial statements begin with the "Statement of Net Assets" and include up to the "Notes To The Financial Statements". The "Notes To The Financial Statements", accompanying schedules, and other reports following the notes are not required to be published. We recommend full compliance in the future.

County Judge/Executive Larry Elkins' Response:

Will Comply.

CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2006
(Continued)

REPORTABLE CONDITIONS AND MATERIAL WEAKNESS

There Is An Inadequate Segregation Of Duties In The Recording Of Fixed Assets

We identified \$429,362 of fixed assets that were not included on the originally presented fixed asset listing. These consisted of \$365,373 of Fort Heiman land, \$13,370 of voting machine upgrades, and \$50,619 of road paving. We recommend that periodically this listing be updated by reviewing the various expenditure accounts, inquiry of various officials and a general knowledge of the activities being conducted within the county. This update should be approved by both the County Planner and the County Judge Executive.

County Judge/Executive Larry Elkins' Response:

We are attempting to improve communication between various offices and departments and the County Planner in these areas.

Original Invoices Should Be Marked In Such A Way To Avoid Duplicate Payment

We found one invoice for over \$30,000 that was paid twice to Kentucky Workers Compensation Fund. We recommend that original invoices be stamped in red with the date paid, initialed by the individual approving the invoice, and be marked with the applicable check number to make obvious to subsequent reviewers the ultimate disposition of the invoice. This should prevent the duplicate payment of such invoices in the future.

County Judge/Executive Larry Elkins' Response:

This would not have prevented this particular duplicate payment as both invoices presented were originals. Both would have been stamped as originals and paid. The problem was the length of time between one being presented, then the other.

Time Sheets Should Be Initialed By A Supervisor Before Being Paid

During the course of our audit, we discovered that time sheets were being completed by the employee and being delivered directly to the individual in charge of payroll in each department. We recommend that the supervisor in charge of the employee approve payment of each timesheet by reviewing each timesheet for accuracy and initialing such approval. This control will help to prevent collusion between employees and keep the approval in the hands of the supervisor.

County Judge/Executive Larry Elkins' Response:

Will comply.

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**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CALLOWAY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ASSISTANCE PROGRAM
CALLOWAY COUNTY FISCAL COURT

For The Year Ended June 30, 2006

The Calloway County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as directed by the applicable Kentucky Revised Statues.



11/14/07

Larry Elkins
County Judge/Executive



Sue Outland
County Treasurer

